

Sales Pulse Research Update

April 14, 2020

## **SPR - Survey results - Impact of C-19 Crises on IT Spending**

### **Takeaways:**

- Based upon field input, below are our current views of the mixed impact on spending that the crises has on the segments and vendors we follow.
- The spike in orders for WFH has mostly played out, except for backlogs for PCs and peripherals and some cloud / telco infrastructure.
- Most vendors have very little visibility into Q2 and beyond; "Deals will have to be resold".
- End users are choosing shorter terms on subscriptions; renegotiating MRR.
- Vendors best positioned when spending ramps back up.

**Overall, the impact of the crisis on the segments and vendors we follow has been mixed:**

### **Vendors who saw a boost in March that our field contacts believe is unsustainable:**

- PCs, headsets, phones (PLT, LOGI, Dell, Lenovo, HPE) - backlogs are extending into Q2 but orders are peaking and channels report that "double ordering" inflates backlogs.
- Security - Appliances / VPN (FTNT, CHKP, CSCO, PANW, FFIV, RDWR) - Many channels have made or come close to goals for these vendors in March but report Q2 orders mostly on hold.

### **Vendors who benefitted from a boost in March and also expected to see longer term benefit:**

- UCaaS (RNG, VG, FIVN, EGHT) - Boost in seats in March, many free seats; likely to see some slowdown in Q2 but will benefit as end users prioritize flexibility, scalability and pay per use of UCaaS solutions.
- Security - Authentication (OKTA) - Boost in authentication from crises; benefits from acceleration in use of SaaS applications. Not immune to slowdown in new activity in Q2.
- XaaS, Collaboration (MSFT, AWS, NOW, ZM, GOOG)) - Microsoft seeing a boost, especially from TEAMS; most believe that crises accelerates collaboration and the move of workloads to the cloud.

- SASE (Secure Access Service Edge) (ZS, PANW) - The buzz in the channel is that Palo Alto turned out 500,000 Prisma Access users in one week. Zscaler also benefitting, although maybe less than expected in the near term.

- Telco and data center infrastructure (CIEN, INFN, ADVA, JNPR, EQIX, DLR, AMT, CCI (CSCO to a lesser extent)). More comments on telco infrastructure below.

**Software vendors most vulnerable to push outs in March and Q2** - This includes vendors who mostly sell perpetual license deals and those who take substantial resources to implement.

- Analytics (AYX, TLND, MSTR, ESTC, SPLK (Splunk has some offsetting benefit from increased security log data from WFH)).

Quote from a Systems Integrator: "Simply, no new analytics projects in Q2 and a significant pause for new SaaS subscriptions. We are seeing significant revenue drop-off on new hardware, software, SaaS, Cloud, and analytics projects until at least Q3."

- Security (SAIL, CYBR, PING, VRNS, TUFN).

**Vendors best positioned when spending ramps back up:**

- Analytics vendors (AYX, TLND, SPLK, DDOG, MDB) after difficult delays in near term business as discussed above.

- SaaS and SASE (ZS (if they make progress with sales execution issues); PANW (must offset expected further pressure on appliances), NOW, MSFT.

- EPP (End Point Protection) - CRWD, MSFT, SentinelOne(private))

- Email security - (MIME, PFPT) - Channels have reported surprisingly healthy performance in March; likely to see slow new account activity in Q2 but positioned well to rebound.

- UCaaS - (RNG, VG, FIVN, RNG, BAND) - after the crises, the UCaaS segment will benefit as end users increase their priority for flexibility, scalability, and pay per use. [See recent update note on the UCaaS segment.](#)

- Security / Identity (OKTA, SAIL, PING) - Although some of these vendors are seeing push out of large projects the identity segment will gain further in priority.

- Telco / data center infrastructure - (CIEN, INFN, ADVA, JNPR, EQIX, DLR, AMT, CCI (CSCO to a lesser extent)). The C-19 crises is clearly driving demand for bandwidth and driving telcos to continue to invest in infrastructure. Checks indicate that the crises has helped to keep 5G projects on track and industry contacts expect Fed to increase their support of rural broadband.

**Storage and HCI vendors: (NTNX, NTAP, PSTG, CVLT)**

- Most of the vendors we follow in this segment finish their quarters at the end of April. So far input indicates that some have benefitted from orders to support VDI but are also seeing holds on projects. We will have more input to help us determine the net impact as our checks continue.

**- Most vendors have no visibility into Q2 and beyond; "Deals will have to be resold".**

- Sales teams believe that many deals that are delayed beyond 1 - 2 months will need to be resold - meaning that end users will reevaluate requirements, budgets and in some cases reopening to competition resulting in uncertainty and further delays in sales cycles. Some re-evaluations are expected to be much more than casual reviews as end users re-architect their IT infrastructure based upon their changing needs and lessons learned in the crises.

- Q2 outlook - Some vendor sales cultures push sales teams with "no excuses", top down forecasting and are less likely to get real feedback from sales teams. Although we expect many vendors to withdraw guidance for Q2 or at least be very cautious, vendors who have a top down forecasting culture are likely to be the last to get realistic feedback from sales teams. We expect this sales cultural issue to further cloud the understanding of Q2 pipelines.

**End users are choosing shorter terms on subscriptions / renegotiation of MRR**

- In [our recent note](#) we discussed pressure on vendors to renegotiate subscription revenue. Channels also add that end users are choosing shorter term (i.e. 1 yr vs. 3 yr terms) for subscription services, negatively impacting metrics for vendors measured on billings and cash flow.

**SPR high conviction views:****Positive**

CRWD - Although CrowdStrike will likely see some slowing of new logos in Q2 they are executing very well in a large market that is undergoing rapid change ([more info in our recent note](#)).

RNG - The C-19 crises is expected to accelerate the already growing UCaaS market; Field feedback indicates pent up demand for Ring Central and Avaya's ACO offering.

AYX - Although we expect a very soft Q2 for Alteryx, they have established themselves as a dominant vendor in the analytics market.

SPLK - The C-19 crises is causing cross winds for Splunk in the near term but they are positioned to benefit from both operational analytics and security analytics as the market ramps back up.

CIEN - Ciena is executing well and benefitting from increased demand for bandwidth; checks indicate that 5G projects continue to move forward to Ciena's benefit.

**Smaller caps who are not leaders but expected to benefit from tailwinds:**

INFN - Infinera is executing better after their merger with Coriant; they are benefitting from increased bandwidth demands, similar to Ciena.

CALX - Pre crises, Tier 2/3 service providers had started to ramp spending on infrastructure refresh; increased bandwidth demand and increased Fed funding will drive more demand for their solutions.

VG - Channels report the Vonage is finally improving their execution after digesting their long string of acquisitions. As with Ring Central, they are also benefitting from an acceleration in the UCaaS segment.

TLND - Talend is also expected to experience a weak Q2 as analytics projects are pushed out, but are well positioned to resume growth in the future. See [our note \(2/5/20\)](#) for more details.

**Select comment from channel contacts:**

"Systems Integrators are beginning to furlough (the new term for lay-off) resources sitting a the bench for more than 30 days. The first iteration is a furlough for 90 days. No one is being told this is permanent. Smaller SIs state they aren't sure if they'll ever come back to where they were, unless the recovery is like a tidal wave, which most don't feel this is realistic."

"New projects outside of a few functional areas (collaboration, WFH, data center infrastructure) are being put on hold." (58 similar comments)

"Projects that require substantial resources to deploy are being pushed out." (22 similar comments; vendors named in these comments include SAIL, CYBR, PING, TENB, VRNS, AYX, SPLK, NOW)

"Although our business with Fortinet was slow in early March, we had a strong finish and came in line with our goals. We attribute this order strength to some end users shoring up their Work from Home infrastructure while others moved some orders up because they were concerned with potential supply chain issues. We also saw deals slip and put on hold."

"Going into 2020 analytics projects were a high priority. These projects are seen as having high strategic value and in response to the crises organization are focused on tactical, not strategic activities so some of these projects have been put on hold." (Global SI)

"We saw some acceleration of deals for F5 for SSL VPN termination, other deal slipped. Overall we came close to meeting out goals for F5 for Q1. Q2 is uncertain." (Regional VAR)

"New projects and especially new logos are the most definite casualties for Q2. We are hopeful that some add-on business that is in the pipeline will move forward but unless it is Work From Home or cloud or telco infrastructure related it is unlikely to proceed."

"Service providers have reprioritize some projects and moved some CAPEX forward. Many of their projects are too large to change abruptly but there has been some increased spending on infrastructure benefitting Juniper, Infinera, Ciena and Cisco. Arista has not seen much benefit in the accounts that we work with."

"The increased demand for bandwidth that has resulted from the crises is encouraging the telcos we work with to move forward with their 5G plans. There has been some delays, so far minor, due to lack of availability of crews to lay fiber."

"We have seen a spike in demand for firewalls to support WFH. FW / VPN. End users are now being cautious not to over buy after they meet short term capacity goals, especially since they may be further trimming staff as the crises extends."

"Most of our new projects have been put on hold. End users say the holds are indefinite. Some say budgets are under review. We can't get feedback form others. New logos - forget about it - revisit in 90 days..." (Regional VAR).

"The cloud has performed well for our customers. We expect this crises to encourage them to move more applications to the cloud. We also expect the Business Recovery will one of the areas to get more budget dollars. Who does this benefit? Cloud service providers, bandwidth providers."

"The channel and manufacturers (PANW, SAIL, CYBR, etc) do NOT know what these new priorities will be yet. The end users need to come back to sales reps at channel and mfr level and tell them what is cancelled, what on back burner, what is important etc and then forecasts and visibility will start to come into focus again."

"End users are coming back to vendors and forcing renegotiation of current contracts and reducing MRR."

"End users are beginning to show signs of pushing back on perpetual license solutions, and subscriptions, that require up front payment on 1YR/3YR/5YR deals. And they want break up payment so not spending cash up front. This could turn biz upside down from cash mgmt and cash on hand, FCF etc."

"The shift to the cloud has been in motion. The virus appears to have companies more focused, going forward, on satisfying functionality via cloud/service providers. This also outsources the problem to the service provider so they have to be responsible for maintaining, upgrading, etc. And, the expense turns into OpEx. Some feel this will accelerate the move to the cloud (this would be both private and public cloud)."

-Professional Services revenue. Projects in motion, based on purchases (CYBR, SAIL, PING, etc) over past 2-6 months are OK. These projects were planned and budgeted. The Pro Svcs folks are working remote (which is typical) on operationalizing these solutions. But what about professional services tied to new projects, new sales, of these products? Accenture, Deloitte, Cognizant type impacts?

- SAIL, VRNS, PING, CYBR called out as high friction (complex) on premises based solutions, that require significant professional services, as companies that could be/are identified as solutions sidelined over next 2-6 months while people focus on other, less complex solutions. Long term these are all solid companies in solid markets but short term?

"Vendors like CyberArk are getting hit harder because they require large up front software purchases . Perpetual license / up front cost less in favor verses monthly."

"Our business with Mimecast held up surprisingly well in March. Our business with them include many SMB customers that are likely facing economic challenges, reduction headcount, etc., so we expect slowing, especially in new business."

"With Proofpoint, renewals are OK but some of our projects for new logos are already being put on hold."

"The SASE segment is going to explode as we come out of this. Cato (private) is well positioned. Zscaler and Palo's Prisma Access should also do well."

"A very larger financial services customer kept/renewed their Symantec / BlueCoat SASE solution as they viewed Zscaler as a another cloud job threat. So they prefer to renew and focused on job preservation and preserving the status quo."

"Regarding Zscaler ZPA, there are very few actual ZPA customers at this time." (ZPA is in the range of 10% - 15% of revenue). A global NY Metro Pharma did a ZPA deal but only 1000 users = \$30K over 3YR period so not big \$. Some believe that ZPA is having latency challenges and that Zscaler needs to build out more infrastructure. Another, current customer, a global professional services firm, bought 50K ZPA licenses."

"We are seeing some Proofpoint deals delayed, similar to the other vendors we represent."

"CrowdStrike - Healthcare vertical is new focus. They've hired reps, over last 3-5 months, in N America to specifically focus on this market. And they are VERY busy. Great timing!"

"We had a strong quarter with Fortinet. Overall I did not expect to hear this. "

"We are seeing strong activity in some vertical markets like defense and pharma but other segments where forecasted projects are on temp hold, and some could be cancelled."

"It is getting harder to displace incumbent firewall companies in part, because functionality difference between FW companies has narrowed as compared to 4+ yrs ago Palo could demonstrate functional superiority - harder to do now."

"Since it's hard to displace/unseat incumbent FW vendors, reps are focusing on whitespace non Palo shops with the Next Gen Cloud products, Prisma Access etc and they state it is working."

"Palo's Prisma Access and Prisma SaaS is seeing solid traction, interest, and budgeting for future projects. So sounds like Palo is experiencing the shift in business, winners and losers, etc but business is happening overall."

"Most of our reps with established accounts had strong Q1, those penetrating new accounts had trouble in March."

"Looking into forecasted opportunities for April and May.....it's very hard to know what will sell. Most deals are moved to holding pattern."

"We (Global Systems Integrator) is seeing a near stoppage for all new projects and clients are asking for an MRR payment, vs. up-front, because CFOs are not approving long-term expenditures of any type."

"AWS is literally buying back contracts and re-issuing with later start dates for the MRR, in exchange for longer contract duration."

Always happy to answer questions or discuss in more detail,

Tom

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